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UNCLAS CARACAS 000163

SIPDIS

SENSITIVE

NSC FOR TSHANNON
ENERGY FOR DPUMPHREY AND ALOCKWOOD

E.O. 12958: N/A

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SUBJECT: EXXONMOBIL PETROCHEMICAL PROJECT LOOKS LIKELY

1. (U) The following message is Sensitive but Unclassified because it contains corporate information. Please handle accordingly.

SUMMARY

2. (SBU) The Ambassador met January 13 with Dan Sanders, President of the ExxonMobil Chemical Company, to discuss the status of a possible investment in Venezuela. The project, a joint venture with Pequiven, state oil company PDVSA's chemical affiliate, would see the construction of a \$2.3 billion petrochemical plant to create feedstock for the plastics industry. ExxonMobil appears to be ready to move ahead with this investment, under discussion since 1996, despite some concerns about the political environment and its possible impact on the financing package. The signature of a Preliminary Development Agreement (PDA), which may be preceded by a meeting in Venezuela between ExxonMobil Chairman Lee Raymond and President Chavez, is likely within the next two to three months. In a best case scenario, the plant would come on stream in 2008-2010. End Summary.

3. (SBU) On January 13, the Ambassador, accompanied by EconCouns, Resources Attache and visiting Deskoff, met with ExxonMobil Chemical Company (EMCC) President Dan Sanders, two EMCC vice presidents, ExxonMobil de Venezuela President Mark Ward, and other company personnel. Sanders and his team asked the Ambassador to comment on possible 2004 political events, saying ExxonMobil would be concerned about anything that could impact on investor confidence or the execution of the project. Sanders informed the Ambassador that the signature of a Project Development Agreement (PDA) may be as little as a month away, following a possible visit to Venezuela by ExxonMobil Chairman Lee Raymond.

THE PROJECT

4. (U) The centerpiece of the proposed joint ExxonMobil/Pequiven (PDVSA chemical affiliate) project would be an ethane-based, ethylene cracker which would provide feedstock for three related facilities. The integrated facility, to be located in the Jose Industrial Complex in Anzoategui State, 140 miles east of Caracas, would convert 1.3 million metric tons of ethane into 1 million tons of ethylene. The ethylene in turn would be converted into 760,000 metric tons of both high- and low-density polyethylene (used for items such as grocery sacks and garment bags respectively) and 430,000 tons of ethylene glycol (used in polyester clothing). The polyethylene would be used primarily to spur domestic projects and to penetrate export markets in South and Central American and the Caribbean. The ethylene glycol production would be exported to European and Asian markets. The capital investment for the project is estimated at approximately \$2.3 billion.

NEXT STEPS

5. (SBU) Once the PDA is signed, a two to three year period will start in which ExxonMobil will have to revalidate the economics of the project, negotiate detailed agreements, get the GOV to agree to the necessary package of fiscal incentives, do the engineering, and, most importantly, get the financing. Construction is expected to take three to four years and would generate approximately 8,000 jobs at its peak. The project would create about 700 direct permanent jobs and would be expected to come on stream in 2008-2010 in a best case scenario.

6. (SBU) PDVSA Gas was originally supposed to construct a gas separation plant to separate the ethane feedstock for the plant from gas provided in Anaco or associated gas from Venezuela's eastern oil fields. PDVSA was also expected to construct a dedicated pipeline directly to the plant. PDVSA's ability to provide enough gas for feedstock has been

questioned. EMCC President Sanders, however, told the

Ambassador that ExxonMobil believes there is enough gas on-shore for development of the first train (i.e., production line). Successive trains would likely be supported by off-shore gas.

17. (SBU) Sanders conceded that there are questions about PDVSA's ability to meet its \$1 billion plus commitment in the 50-50 joint venture (as well as to fund construction of the plants mentioned above). He said ExxonMobil has received assurances that the project funding has been included in PDVSA's budget. He added, however, that ExxonMobil will be looking at investment models adopted by other projects that have locked in PDVSA cash calls. He acknowledged that getting the financing will be difficult in the absence of investor confidence in PDVSA.

COMMENT

18. (SBU) ExxonMobil's interests in this project happen to coincide with Chavez's efforts to promote downstream industrial development in Venezuela. Company sources believe the GOV dragged its feet so long on approving this project because it saw it exclusively as an export project. ExxonMobil, however, has bent over backwards to accommodate Chavez Administration goals to expand domestic industry. For example, ExxonMobil has engaged to start importing resins to spur the further development of the domestic Venezuelan plastics industry before project construction. The company has also pledged to provide technical assistance to the national industry in such areas as how to process resins, product applications, etc.

19. (SBU) Comment Continued: ExxonMobil has told us that, despite their best efforts to push for a low key ceremony for signature of the PDA, the GOV is likely to insist on a televised splash. Any visit by ExxonMobil's Chairman to Venezuela is also likely to provide President Chavez with electioneering fodder. GOV officials have already been quoted in the local press as saying that Sanders' visit is a sign of investor confidence in Venezuela.
SHAPIRO

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